

CHAPTER 3

FINANCIAL MANAGEMENT AND GENERAL SUPPORT

A. SELF-SUPPORTING CHARACTERISTICS . Civilian MWR activities are required to be generally self-supporting, i.e., largely dependent on NAFs for support. DoD Directive 1015.6, (reference (d)) and DoD Instruction 1015.4, (reference (g)), delineate the APF/NAF relationships, including personnel support. (Also see section D., below.)

B. FINANCIAL MANAGEMENT. DoD Instruction 7000.12 (reference (i)) prescribes DoD financial management policies for MWR activities. Broad guidance for supporting NAF financial management systems is also included. All civilian employee MWR resources shall be administered economically and efficiently through sound financial management practices.

1. Income Objectives

a. Category II NAFI income objectives shall be geared toward the dual role of earning and sharing revenue. From its gross NAF income, derived largely through patron resale activities, the NAFI must pay for the goods, the expenses of selling them, and for most of the supporting assets used in conjunction therewith. In addition to these internal demands on gross income, are the external demands of dividends to be paid Category IV NAFIs. These dividends shall be paid on a timely and dependable basis, normally apportioned from current net income transfers to equity. However, dividends also may be paid on a temporary basis from Net Worth (Fund Equity) accumulations of prior fiscal periods in order to prevent "feast or famine" situations from developing in Category IV support.

b. Category IV NAFI income objectives shall be geared primarily to these Category II dividends. Income objectives that exceed the dividends received may require self-generated income through the activities authorized in Chapter 2, subsection C.2. However, the incidental income derived from Category IV activities is not intended to replace nor compete with those resale activities that are more properly Category II. Unconditional acceptance of gifts and donations from sources outside the NAFI system is neither a prohibited nor a preferred source of income.

2. Pricing. Selling prices for goods and services shall be consistent with the income objectives essential to sustaining the planned Category II and IV MWR programs. The financial plan shall be expressed through the budgeting process. Realistic prices for goods and services are a means by which income objectives are achieved. Additionally, civilian NAFI prices may not be substantially less than comparable commercial establishments within the commuting area of the DoD installation. No resale goods or services shall be priced at less than total cost, including both direct and indirect costs.

a. Menu cost cards should be used in establishing prices that cover all food costs, including labor.

b. Malt beverages authorized for mealtime consumption may not be sold at reduced prices.

c. Tobacco products sold through vending machines shall not be priced lower than comparable items and brands sold by the installation military exchange.

d. Neither shall a patron receive special prices or privileges for individual or group functions that are not available to other patrons. Nor shall special privileges and prices that are less than "break even" plus a nominal net return be given to functions designated as "command sponsored."

e. Bingo game prices shall be sufficient to cover all costs of bingo.

3. Budgeting and Accounting. DoD Instruction 7000.12 (reference (i)) contains policy guidance directed toward greater standardization of NAF budgeting, accounting, reporting, analyzing, and managing of resources. Civilian NAFIs shall use departmental financial management regulations, adapting and supplementing only as required. The Military Departments shall in turn recognize the need to accommodate civilian NAFI requirements within their financial management systems.

a. Operating, Capital, and Cash Budgets shall be prepared in accordance with the formats, schedules, and other procedures published by the responsible departmental-level civilian NAFI. Individual NAFI budgets shall be approved at the installation or a higher echelon level.

b. Analyses of actual performance shall be compared with the approved budget and the necessary management actions taken. See Chapter 1, section H., for performance indicators.

c. Departmental NAFI accounting systems are required to follow the policies contained in reference (i). The departmental-level civilian NAFI may issue supplementary accounting interpretations and instructions unique to the civilian NAFI system. A copy of these interpretations and instructions shall be forwarded to the Director of Accounting Policy, (OASD(C)), as well as the Deputy Assistant Secretary of Defense (Force Management and Personnel) (Civilian Personnel Policy and Requirements) (DASD(FM&P))(CPP&R).

(1) Departmental-level procedures shall ensure that APF expenses for Categories II and IV civilian MWR activities are promptly and accurately reported in accordance with reference (i) and accompany civilian NAFI financial reports.

(2) The distribution of all dividends by Category II to Category IV civilian NAFIs shall be recorded and reported as decreases in equity. Other distributions and receipts of dividends and grants and all equity transactions shall be recorded and reported in accordance with reference (i), as implemented through departmental NAF accounting regulations.

4. Internal Controls and Auditing

a. NAFs are created by cash transactions that place emphasis on the need for an effective system of internal controls. The volume and types of transactions conducted by Category II civilian resale activities cause their tangible assets to be especially vulnerable to fraud, waste, and abuse.

Internal control systems developed by the Military Departments shall be fully implemented and maintained in order to safeguard all assets, ensure the propriety of receipts and disbursements, and promote the accuracy and reliability of records and reports.

b. DoD Directive 1015.1 (reference (a)) requires Components to provide for the periodic review and audit of NAFIs. Audits also concern the authorization for functions being performed, as well as their being conducted in accordance with the policies referenced herein. In accordance with DoD Instruction 7600.6 (reference (1)), the normal NAFI audit cycle is every other fiscal year. Conditions and circumstances may warrant more or less frequent audits. A decision to audit less frequently than biennial shall be justified and approved by the installation commander. In no event shall the elapsed time between the audit of a civilian NAFI exceed 4 years. When there are indications of fraud or other serious improprieties, out-of-cycle, special purpose audits shall be performed. DoD personnel paid from APFs are authorized to perform these special audits when required to discharge the Government's responsibilities for NAFI management surveillance.

(1) DoD personnel paid from APFs are also authorized to perform audits on a nonreimbursable basis for all Category II NAFIs with annual gross revenues of less than \$250,000 and all Category IV NAFIs, regardless of annual gross income.

(2) Independent audits for all Category II NAFIs with annual gross revenues of \$250,000 or more shall be performed at NAF expense by licensed certified public accountants. As an alternative, DoD personnel paid from APFs may be used for these audits on a reimbursable basis, if more economical and based on availability.

5. Reporting and Analysis

a. DoD Instruction 7000.12 (reference (i)) prescribes annual consolidated summary reports to ASD(FM&P) pertaining to the overall financial management of APF and NAP resources. DoD Components are required to separately forward consolidated reports for joint Categories II and IV civilian MWR/NAFIs. The narrative analyses shall be prepared by the responsible departmental-level office that has been designated in accordance with subsection F.2., DoD Directive 1015.8 (reference (c)).

b. DoD Instruction 1330.20 (reference (h)) requires DoD Components to also submit annual consolidated summary personnel reports to the ASD(FM&P). These reports present statistical information on MWR Personnel Strength and NAFI Employees' Compensation and Benefits Programs, both by categories of employees and MWR activities. DoD civilian MWR activities and NAFIs at all levels shall cooperate in collecting and verifying the data. Care shall be observed in reporting any APF personnel, both military and civilian, who assist on a part-time basis in managing civilian MWR activities. These personnel shall not be included in reports if less than 25 percent of an individual's part-time or collateral duties are with Category II or IV civilian MWR activities.

c. Financial and personnel reports enable the Office of the Secretary of Defense (OSD) to maintain broad surveillance over these sensitive resources. Certain information is to be maintained through management indicators. Monitoring of more detailed information may be necessary to execute management responsibilities at other levels within the Department of Defense. Such information shall be within the policy guidelines of DoD Instruction 1330.20 and DoD Instruction 7000.12 (references (h) and (i)), and compatible with all reporting required therein and above. Detailed analysis and evaluation is particularly valuable at installation and MWR activity level, providing it is followed by appropriate management action.

6. Management of Resources. Civilian MWR activities shall be managed to ensure that both APF and NAF resources are obtained and used effectively.

a. Cash. Cash shall be accounted for, protected, invested, and expended promptly. Conversion of NAF cash investments to more usable forms of assets through MWR program benefits for DoD personnel is the principal purpose of the DoD MWR/NAFI program. Payments shall be made to contractors within the payment terms of the contract to avoid interest penalties imposed by Public Law 97-177 (reference (m)). (See paragraph D.1.b).

b. Investments. The purpose of accumulating assets through investments is to enable a program expenditure to occur in the required amount at the proper time. Safety and liquidity are, therefore, most important. Sound funds management dictates, however, that a reasonably competitive rate of return also be realized. Investment sources are limited to those specified in reference (i).

c. Loans. Departments shall ensure that there is a NAFI loan source available to civilian NAFIs. This source will normally be the departmental-level Central Successor NAFI. Civilian NAFIs shall not borrow from non-NAFI sources except as approved at Military Department level in coordination with the ASD(FM&P).

d. Dividends. Financial management, in both its planning and operational phases, shall recognize the obligation of Category II civilian NAFIs to support Category IV NAFIs through regular and timely dividends in adequate amounts. Conversely, Category IV dividend budgeting shall recognize the dependence of Category II resale activities on income generation through customer patronage. Category II NAFIs must also fund most capital and operating needs of civilian NAFIs. Departmental dividend distribution systems shall therefore be based on equitability toward both the generator and the recipient of dividends.

e. Risk Management. Protection of NAFI assets used in MWR programs shall normally be done through existing departmental NAF insurance programs. The law of large numbers, the spreading of risk, and program administration are most economically and efficiently applied by maximizing coverages and standardizing rate structures. Civilian NAFI risk management programs that are planned to be independent of departmental programs require the approval of the ASD(FM&P).

C. PERSONNEL

1. Staffing. Staffing of civilian MWR activities and the supporting NAFIs shall be in accordance with DoD Instruction 1015.4 (reference (g)). Appropriated fund personnel, both military and civilian, may perform ECECS, as further described in Chapter 1, section G. Therefore, personnel paid from NAF must provide much of the management continuity and operating skills in civilian MWR programs. NAFI employees shall be administered in accordance with DoD 1401.1-M (reference (n)) and reported in accordance with subsection B.S., above. Civilian employee volunteers are also an important staffing resource. See Chapter 1, subsection G.5.

2. Standards of Conduct. The standards of conduct are published in DoD Directive 5500.7 (reference (o)) and implemented by reference (n). These standards apply to all NAFI employees and other personnel associated with managing or operating civilian MWR activities, including volunteers.

3. Training. Military Department offices responsible for civilian MWR programs shall ensure that all necessary NAFI employee training is conducted in accordance with reference (n). This may include job orientation, on-the-job and off-the-job training, apprentice programs, and supervisory training. The nature of directly operated, full food services by Category II civilian NAFIs in particular, lends itself to cost-effective training. Funding necessary for most training needs is a responsibility of the employing NAFI. In accordance with reference (n), existing Government training programs should be made available for civilian NAFI employees within limits permitted by law, regulations, and funding.

4. NAFI Employee Administration

a. The following major areas of administering civilian NAFI employees are delineated in reference (n).

- (1) Employment and Placement.
- (2) Position Classification.
- (3) pay and Allowances.
- (4) Attendance and Leave.
- (5) Personnel Relations.
- (6) Retirement and Insurance.

b. In the interests of uniformity, economy, and job mobility, civilian employee NAFIs shall be administered on the same basis as other DoD NAFIs within the applicable Military Department NAFI personnel system.

5. Recognition Awards. Departmental offices responsible for civilian NAFIs are encouraged to develop awards programs to recognize unique or specialized program contributions, e.g., in Category II employee food services. Funding for recognition programs may be by the employing NAFI, departmental-level civilian NAFI, or a combination of these.

D. LOGISTICAL SUPPORT

1. Procurement

a. Civilian NAFI procurement shall be accomplished in accordance with DoD Instruction 4105.67 (reference (p)) and implemented by departmental regulations. Supplemental guidance for civilian NAFIs may be issued, providing it is in consonance with DoD guidance. Civilian NAFIs shall participate with other NAFIs in common item or service acquisitions to the extent feasible, including the use of existing contracts. Authorization for support from the APF procurement office is contained in DoD Directive 1015.6 (reference (d)) and reference (p).

b. Public Law 97-177 (reference (m)) applies to all NAFI acquisitions, and contracts shall:

- (1) Set the terms of payment clearly.
- (2) Specify payment due dates.
- (3) Designate the NAFI or servicing accounting office to which invoices will be sent.

c. Discounts within the terms of the contract shall be taken whenever possible. In the absence of specific terms in the contract, payment terms for receiving acceptable products shall be: 7 days for fresh meat, poultry, and eggs; 10 days for other agricultural products; and 30 days for all other products.

d. All personnel involved in the civilian NAFI procurement process shall:

- (1) Receive formal instruction in procurement policy and procedures.
- (2) Participate in meetings conducted by installations and commands for the purpose of improving the NAF procurement process.

2. Equipment

a. Use of Surplus APF Equipment.

(1) Reference (d) authorizes the use of Government-owned surplus/excess equipment by both Category II and IV MWR activities. DoD 4160.21-M (reference (q)) sets DoD policy and prescribes uniform procedures for using this type of property. Civilian NAFIs shall comply with departmental regulations and local procedures that implement reference (q).

(2) Records and other documentation for loaned APF property may not be combined with NAFI property records. The title and accountability for loaned APF property remain with the Government, although responsibility is assumed by the appropriate MWR program official. For ease of identification, inventory, and accountability, the two types of property shall be marked differently.

(3) Reference (d) requires that NAFIs be used to pay the costs of maintaining and repairing loaned APF equipment.

(4) Since the type and availability of APF property will vary by location, additional equipment requirements shall be filled from NAFI resources, either by transfer or purchase.

b. NAFI Equipment

(1) DoD Directive 1015.6 (reference (d)) requires that the cost of maintaining and repairing equipment acquired with NAFs be borne by the NAFI. For ease of maintaining accountability and fixing responsibility, NAFI property shall be identified and marked by number and/or code.

(2) NAFI property accounted for as a fixed asset shall be capitalized, recorded, controlled, and depreciated in accordance with DoD Instruction 7000.12 (reference (i)) and departmental accounting instructions.

(3) All food service equipment shall be operated and maintained in compliance with the sanitation standards prescribed by departmental regulations.

3. Facilities

a. Use. The use, maintenance, and repair of Government facilities by civilian MWR activities is authorized by reference (d). Repair and maintenance costs paid from NAF are authorized only when APFs are not available or sufficient.

b. Space Criteria. DoD 4270.1-M (reference (r)) contains facilities space and other construction criteria for civilian employee restaurants. Facilities planned that exceed these criteria require a waiver. Construction of Category II civilian MWR facilities other than restaurants, as well as all Category IV activities construction, require an exception to these criteria, since these are not provided for in reference (r). Military Department regulations shall be followed in processing civilian employee MWR projects that require construction criteria waivers or exceptions. These project requests shall be forwarded through engineering technical channels.

c. Utilities. Reference (d) requires that all utility costs for Category II civilian MWR activities be paid from NAF. Category IV utility costs may be paid from appropriated funds on the same basis as comparable Category III MWR activities.

4. Other Logistical Support. In the daily operation of civilian employee MWR activities, particularly food services and other resale, the authorization and funding of logistical support is of major importance. Specific items listed below are based on the authorization contained in reference (d).

a. Supplies. The supply of expendable items to Category II and IV MWR activities is authorized for the purposes of ECECS. All other supplies will be provided with NAFs.

b. Transportation. NAFI property may be transported at APF expense under the following conditions:

- (1) As excess equipment.
- (2) Upon a base closure.
- (3) During emergency conditions.

c. Otherwise NAFs shall be used for such transportation. Transportation of personnel by Government-owned vehicles is authorized for use only in ECECS functions. Other use of Government-owned vehicles by Category II and IV civilian NAFIs, including transportation of personnel, shall be on a reimbursable basis.

d. Communications. APF support is authorized for ECECS and when communicating with other DoD and Governmental agencies. Examples are data gathering and reporting and obtaining command and departmental-level information. Otherwise, NAFs must be used for communications costs related to resale activities, collections of income, and other NAFI internal administrative and operational functions.

e. Common Services. These services are necessary for security protection, health, sanitation, and safety. They are, therefore, authorized to be furnished from APF resources for both Categories II and IV.

f. Exemptions for small MWR activities. DoD Directive 1015.6 (reference (d)) authorizes APF support for common services as defined therein when total annual cost of these services to MWR activities is \$500 or less. This exemption may have particular applicability to small civilian MWR activities and should be carefully examined to achieve authorized economies in proration and billing.

5. Transfer of Installations.

a. DoD Instruction 1015.2 (reference (b)) provides for the negotiation process to determine the disposition of NAFI assets upon the transfer of a DoD installation. The overall objective shall be to retain these assets for continued use by DoD civilian employees and control within the DoD civilian MWR/NAFI system.

(1) Asset disposition upon transfer of installation jurisdiction within a Military Department or Defense Agency shall be a matter of determination within the department or agency, as applicable. However, priority shall be accorded to other civilian NAFIs within the department or agency. If a joint departmental-level civilian NAFI exists, priority shall next be accorded to the civilian NAFI of the other Military Department(s) or Defense Agencies. In no event will civilian employee NAFI cash and investment assets totalling \$5,000 or more, or serviceable property assets with fair market values totalling \$50,000 or more, be transferred to other than a Category II or IV civilian employee NAFI without the advance approval of ASD(FM&P).

(2) Transfer of installation jurisdiction between Military Departments and Defense Agencies shall be by negotiation within the following guidance:

(a) Assets shall be transferred to the appropriate civilian NAFI of the gaining Military Department or Defense Agency if civilian NAFI operations are to be continued on the same scale.

(b) Assets shall be transferred to the Central Successor Civilian NAFI of the losing Military Department if civilian NAFI operations are being discontinued.

(3) If transfer of the installation is to a Federal agency outside the DoD, to a State or local government, or to the private sector, civilian employee NAFI assets shall be transferred to or controlled by the Central Successor Civilian NAFI of the losing Military Department.

b. Transfers of serviceable property assets shall be made only when cost effective, i.e., when the value or utility of the property is greater than the costs of shipping and handling.